



CURRENT ENERGY RELATIONS BETWEEN TURKMENISTAN AND RUSSIA: TRENDS AND PROSPECTS

Turkmenistan is one of the most important energy-rich countries not only in Central Asia but also in the whole world regarding its oil and natural gas reserves. According to the BP World Energy Statistics Report 2014, while the amount of proven natural gas reserves in the world is 187 trillion cubic meters, Turkmenistan is the fourth country in the world after Russia, Iran and Qatar with 17 trillion cubic meters of natural gas in terms of the amount of natural gas reserves. While natural gas constitutes to 80% of the country's exports, oil and oil products, cotton and textile products, and other products constitute to 10%, 8% and 2% respectively.

Over 180 hydrocarbon fields, 120 of which are natural gas deposits, have been discovered in Turkmenistan. The largest natural gas fields are located in the south-eastern part of the country and in the Amu Darya Basin. The Dauletabad gas field explored in 1974 was previously believed to be the largest gas field. According to international firms such as DeGolyer & MacNaughton (USA) and Gaffney, Cline & Associates Ltd (UK), there are 4.5 trillion cubic meters of natural gas reserves in the region. However, after the discovery of a large natural gas field at the South Yolotan structure, the President of Turkmenistan, G. Berdimuhamedov, decided to unite a cluster of gas fields, namely, South Yolotan, Osman, Minara and Yashlar, into Galkynysh gas field, which became one of the biggest gas reserves in the world.

Russia is the first country that has been importing Turkmen natural gas since the Soviet period. Turkmen natural gas has been exported to Russia via the 5000 km long Central Asia-Center pipeline, which was established by the Russian state-owned company Gazprom in order to transport natural resources from the Central Asian countries to Russia. This pipeline, which supposed to transport 80 billion cubic meters of gas annually through the territories of Uzbekistan and Kazakhstan, was put into operation at the end of 1960's. However, currently the natural gas transportation capacity of the pipeline is reduced and needs to be seriously maintained and renewed. In 2003, a long-term (25 years) purchase agreement regarding the cooperation in the sphere of natural gas transportation was signed between Russia's national company Gazprom and Turkmenistan's national company TurkmenNefteGaz.

The first signs of crisis between the energy sectors of Turkmenistan and Russia were seen in 2006 when Turkmenistan increased the price of natural gas exported to

Russia from \$65 to \$100 for 1000 cubic meters. At that time, Russia was selling natural gas to Europe at a price of \$260 for 1000 cubic meters.

However, the parties could overcome mentioned difficulties and signed two long-term agreements in 2008. The first agreement (25-year) includes the principles for determining the price of natural gas. Within the framework of the agreement, the price of the export of Turkmen natural gas to Russia was increased from \$150 for 1000 cubic meters in 2008 to \$225 for 1000 cubic meters in 2009. Later, based on a subsidiary agreement the price of the export of Turkmen natural gas was set to \$240. The second agreement included financial and technical support necessary for the infrastructure of transportation of Turkmen natural gas and for the discovery of new natural gas fields.

As a result of the exploration of new natural gas fields in Russia and reduction in European demand for natural gas due to 2008 global financial crisis tension between Russia and Turkmenistan increased. Besides, the crisis between Russia and Ukraine negatively affected the energy relations between Russia and Turkmenistan. Russia tried to prevent Turkmen natural gas from being transported to Ukraine and Europe. For instance, the large number of Ukrainian high-ranked officials have made attempts to reach bilateral agreements with Turkmenistan on import of natural gas directly but no results were achieved.

In these circumstances, Gazprom's demand for Turkmen natural gas reduced further. In April 2009 after the accident at the Central Asia-Center pipeline, natural gas exports to Russia stopped almost completely (95%), which caused further aggravation of relations between the two countries. While Turkmenistan argued that the accident happened as a result of reduction of natural gas imports by Russia, Russia claimed that the reason behind the accident was unqualified pipeline services of Turkmenistan. It is worth mentioning that all these developments took place after the European countries reduced their natural gas imports from Russia.

Therefore, Russia decreased natural gas imports from Turkmenistan from 41-42 billion cubic meters in 2006-2008 to 10.5 billion cubic meters of gas in 2014. At the beginning of 2015, Gazprom declared that they would reduce their natural gas imports from Turkmenistan to 4 billion cubic meters. When Turkmenistan expressed its displeasure with the issue, the energy crisis between the two countries became

apparent and attracted the attention of the world. In July 2015, the Ministry of Production of Oil, Natural Gas and Underground Resources of Turkmenistan declared that Gazprom had not paid for the exported natural gas without any explanation since the beginning of 2015. After that, Gazprom appealed to Stockholm International Court of Arbitration asserting that TurkmenNefteGaz changed the price of natural gas. Due to its neutral status, Turkmenistan has been performing a successful profile in the energy crisis with Russia. In this framework, Turkmenistan started to develop a closer cooperation with China, the EU and Turkey in search for alternative markets. Most experts state that nowadays Turkmenistan's economic stability depends on its relations with China rather than Russia. Russia surprisingly keeps silent regarding the exports of Turkmen natural gas to China. The main reason behind this silence is that Russia does not want Turkmenistan as a rival in natural gas exports to the large and profitable European market.

After receiving a long-term loan within the framework of the natural gas purchasing agreement with China at the amount of \$10 billion from the China Development Bank, Turkmenistan accelerated the process of establishing new natural gas facilities. In December 2009, the Turkmenistan-China Natural Gas pipeline was launched. In 2014, China imported 25.9 billion cubic meters of natural gas from Turkmenistan, which is 26.3% more compared to the amount of gas imports in 2013. Chinese CNPC and Turkmenistan reached an agreement to produce natural gas in Galkynysh gas field. Bilateral cooperation in the New Silk Road project has been increasing and, as a result, an intergovernmental agreement on exporting 65 billion cubic meters of natural gas to China annually was signed between Turkmenistan and China in May 2015.

All these developments clearly show that trade relations between China and Turkmenistan have been increasing. Besides, Turkmenistan has been taking steps to export natural gas to the EU countries and Turkey directly. The transportation of Turkmen natural gas to Europe via the Trans-Anatolia pipeline is planned starting 2018. Agreements with Italian Eni, Chinese CNPC, agreements with Japan on joint construction of oil and natural gas production facilities and agreements with India, Pakistan and Afghanistan on the construction of the TAPI (Turkmenistan-Afghanistan-Pakistan-India) pipeline seem to weaken Russia's power in the energy geopolitics of the region.

Politics, Foreign Affairs and Security

- Within the framework of the Summits of the Collective Security Treaty Organization (CSTO) held in Moscow, Presidents of Kazakhstan, Russia, Armenia, Belarus, Kyrgyzstan and Tajikistan discussed growing activities of terrorist and extremist groups and destabilization of the situation on the external borders in the CSTO region. At the same day, Moscow held the Summit of the Eurasian Economic Union (EAEU) member countries. During the meeting, the EAEU leaders discussed possible economic impacts of launching a free trade zone between Ukraine and the EU on January 1, 2016 on the national economies.
- Under the auspices of the Co-Chairs of the OSCE Minsk Group, the President of Armenia, Serzh Sargsian, and the President of Azerbaijan, Ilham Aliyev, held a Summit in Bern. During their one-on-one meeting, the presidents tried to clarify their positions over the Nagorno-Karabakh conflict discussing recent violence and casualties, including civilians, caused by the use of heavy weapons. The presidents supported the ongoing work of the OSCE Minsk Group on proposals regarding measures to reduce the risk of violence along the Line of Contact and the Armenian-Azerbaijan border.
- The UN Security Council has unanimously agreed upon a resolution endorsing an international roadmap for a peace process in Syria. The council adopted the text, which sets out a timetable for talks between the Syrian government and the opposition with a start date of early January, 2016.
- According to the State Border Guard Service of Ukraine, a new checkpoint Maryinka was opened on the separation line in the Kurakhovo-Donetsk direction in the Donbas region. The traffic capacity of the checkpoint is up to 6,000 people and 1,500 transport vehicles per day.
- According to the Ministry of Defense of Kazakhstan, the Naval Forces of the country test launched an anti-aircraft missile from a warship on the Caspian Sea for the first time. The Kazakh Naval Forces test fired its Arbalet-K air-defense missile system from a marine vessel called the Oral.
- The Embassy of Germany in Tashkent confirmed that German military air base in Termez located

on the Uzbek border with Afghanistan has been officially shuttered. The base served as a logistics hub for the German military mission in northern Afghanistan.

Economy, Finance and Energy

- During the official visit of the President of China, Xi Jinping, to Bishkek, Kyrgyzstan and China signed an agreement on construction of a gas pipeline through the Kyrgyz territory for the transit of gas from Turkmenistan and Uzbekistan to China. The pipeline construction amounted to \$1.5 billion. Kyrgyzstan expects that the gas transit revenues will amount to about \$2 billion annually.
- During the 20th China-Russia Prime Ministers' Regular Meeting, China and Russia signed more than 30 cooperation documents in energy, investment, finance, high technology and other areas. For instance, energy giants Sionopek and Rosneft signed a Memorandum of Understanding on oil and gas projects in eastern Siberia, while CNPC and Gazprom inked an agreement on the design and construction of the cross-border section of the China-Russia east-route natural gas pipeline.
- China's General Nuclear Power Corporation and Kazakhstan's Kazatomprom signed an agreement to jointly build a nuclear fuel assembly plant and to mine uranium deposits in Kazakhstan. The agreement establishes production of fuel assemblies for Chinese nuclear power plants on the basis of the Ulba Metallurgical Plant with an outcome capacity of 200 tons per year.
- The volume of direct foreign investments made in the economy of Azerbaijan totaled to \$5.7 billion in January-September 2015, 88.2% of which accounted for the oil and gas sector. Direct foreign investments in the economy of the country have dropped by \$5.8 billion or by 1.72% compared to January-September 2014.
- According to the Federal Statistics Service of Russia, industrial production of the country fell by 3.3% in January-November 2015 and by 3.5% in annual terms. Production of mineral resources and production at processing industries declined by 0.1% and 5.3% respectively, while production and distribution of electric power, gas and water declined by 3.5% year-on-year in November 2015.
- According to the Statistics Committee of the Ministry of National

Economy of Kazakhstan, the country reduced its oil output by 1.8% to 60.7 million tons in January-November 2015. During the reporting period, production of gas condensate and natural gas increased by 0.1% and by 1.9% to 11.783 million tons and to 19.657 billion cubic meters respectively.

- According to the National Bank of Tajikistan, the inflation rate measured by consumer price index reached 4.7% in January-November 2015, which is 2.1% less than that during the same period of 2014. Tajikistan's inflation stood at 0.6% in November 2015, which is 0.1% fewer compared to November 2014. Inflation in annual terms reached 5.2%, which is a 1.9% slow down compared to the same period of the previous year.
- The President of Russia, Vladimir Putin, endorsed a law on federal budget for 2016. The budget for 2016 envisages revenues of 13.738 trillion rubles (\$195 billion) and expenditures of 16.099 trillion rubles (\$228 billion), which will amount to 17.5% and 20.5% of GDP respectively. The budget deficit will amount to 2.36 trillion rubles (\$33.4 billion) or 3% of GDP.
- The Central Bank of Azerbaijan announced that the country switched to a floating rate of manat in order to ensure the competitiveness of national economy. As a result, the exchange rate of the US dollar and of euro to manat rose by 47.6% and 47.9%, and stood at 1.55 manats and 1.685 manats respectively.

Society and Culture

- The Board of Directors of the Asian Development Bank has approved allocation of the 3rd tranche for the construction of national highways in the amount of \$150 million to the government of Uzbekistan. The loan will be used for the reconstruction of section of the Guzar-Bukhara-Nukus-Beynau (A-380) road.
- Turkmenistan and the United Nations Population Fund (UNFPA) have signed an agreement on co-financing the program of the country for 2016-2020 aimed to provide further progress in such spheres as gender equality, reproductive health services and newborns' and mothers' health protection.
- Soyuz TMA-19M spacecraft with three cosmonauts on board blasted off from the Baikonur space site in Kazakhstan and docked with the International Space Station.